



FRANKLIN TEMPLETON  
INVESTMENTS

ASSET ALLOCATION

# 88 YEARS OF BULLS AND BEARS



## CREATE A PLAN THAT'S RIGHT FOR YOU

*You've heard these expressions before:*

*"No pain, no gain" "No guts, no glory" "No risk, no reward"*

In the world of investing, a direct relationship has historically existed between the potential for total returns and the amount of risk one is willing to assume. But it doesn't necessarily follow that you must throw caution to the wind to be a successful investor.

It does mean, however, that it's important to determine what kind of investor you are, how much risk you're willing to assume and the length of your investment horizon before selecting investments that match your personal style. An experienced financial advisor can help you understand and make these decisions and assist you in establishing an appropriate investment plan. They offer market knowledge and planning expertise, and will take into account your individual investment needs to create an investment strategy tailored to your specific investment goals and risk tolerance.

This brochure introduces asset allocation, a time-tested strategy to diversify your portfolio. You'll follow five hypothetical asset allocation portfolios, ranging from conservative to aggressive, through nine decades, beginning with the 1930s and continuing through December 2017. See how various portfolios would have fared over the long term, through wars, recessions, political changes, economic bumps and slumps, and human triumphs and tragedies. You'll find that long-term investors have been rewarded, and investment success depends more on "time in the market" than "timing the market."

And, as another old adage suggests: "Nothing ventured, nothing gained."

*This brochure is general in nature and intended for educational purposes only; it should not be considered tax, legal or investment advice, or an investment recommendation. Consult your financial advisor for personalized advice that is tailored to your specific goals, individual situation, and risk tolerance.*

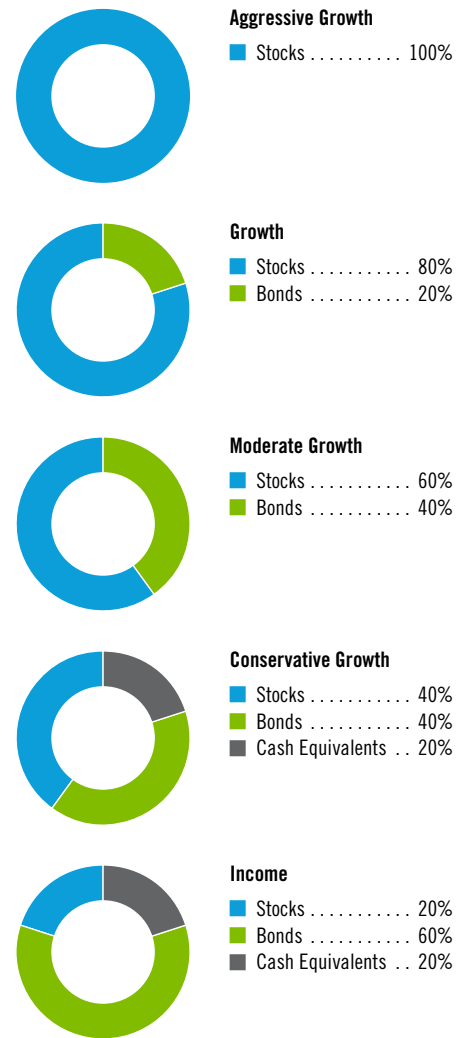
**Not FDIC Insured | May Lose Value | No Bank Guarantee**

# A CLOSER LOOK AT HYPOTHETICAL ASSET ALLOCATION PORTFOLIOS

Asset allocation is the process of diversifying financial resources among various asset classes such as stocks, bonds and cash equivalents. We'll be discussing hypothetical portfolios that represent five general allocation plans, covering a variety of risk/reward scenarios. Stocks are represented by the Standard & Poor's 500 Index (S&P 500), bonds by long-term U.S. government bonds and cash equivalents by U.S. Treasury bills.<sup>1</sup>

Keep in mind that the portfolios to the right are only hypothetical examples of asset allocation plans. You can allocate your own portfolio in many ways, even within the individual asset classes of stocks, bonds and cash equivalents. For example, an investor interested in stocks could choose from foreign and domestic securities, small-, mid- and large-capitalization stocks, and value and growth equities. Consult your financial advisor to see which allocation approach may work best for you.<sup>2</sup>

These five hypothetical asset allocation portfolios are for illustrative purposes only, don't represent the performance of any Franklin Templeton fund and aren't intended as investment advice. As you read through this brochure, remember that past performance does not guarantee future results. Please keep in mind, average annual returns and hypothetical investment values do not reflect the fees and charges associated with specific investment products; if included, the results would be lower. Portfolios are rebalanced annually.



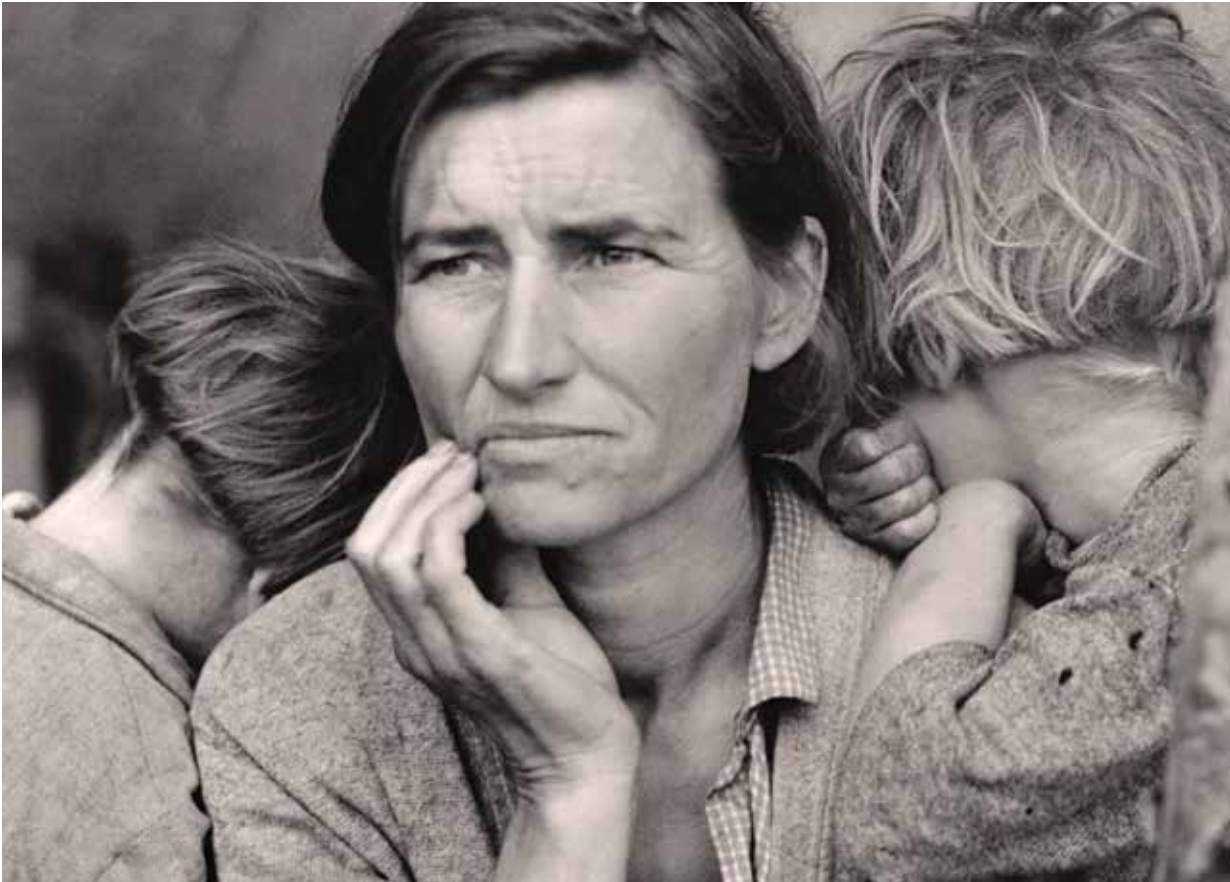
*All investments involve risks, including possible loss of principal. Stock prices fluctuate, sometimes rapidly and dramatically, due to factors affecting individual companies, particular industries or sectors, or general market conditions. Bond prices generally move in the opposite direction of interest rates. As interest rates rise, bond prices often decline. Special risks are associated with foreign investing, including currency fluctuations, economic instability and political developments. Investments in emerging markets involve heightened risks related to the same factors, in addition to those associated with these markets' smaller size and lesser liquidity.*

Diversification does not assure a profit or guarantee against a loss.

1. Source: Morningstar, Inc. All rights reserved. See [www.franklintempletondatasources.com](http://www.franklintempletondatasources.com) for additional data provider information.

Indexes are unmanaged and include reinvested dividends or interest. They do not reflect any fees, expenses or sales charges. One cannot invest directly in an index.

2. In selecting an asset allocation plan to meet your individual situation, you should consider a variety of factors, including your assets, income, age, investment objectives and risk tolerance.



## '30s THE GREAT DEPRESSION

During his 1933 inaugural address, Franklin Delano Roosevelt proclaimed, “The only thing we have to fear is fear itself.” He later pledged a New Deal to aid the economy, introducing unemployment insurance and a new Social Security program that guaranteed income for retired Americans. Radio and Hollywood movies grew in popularity as entertainment provided people an escape from hard times.

Economic distress swept the nation after the October 1929 stock market crash. The Great Depression, which lasted from 1930 to 1936, bottomed in 1933 when one-fourth of the civilian labor force was unemployed. Each of the five asset allocation portfolios reflects meager market gains during this decade. The Income portfolio, with limited exposure to stocks, would have performed the best among the five hypothetical portfolios during this decade and was the least volatile based on standard deviation of returns.

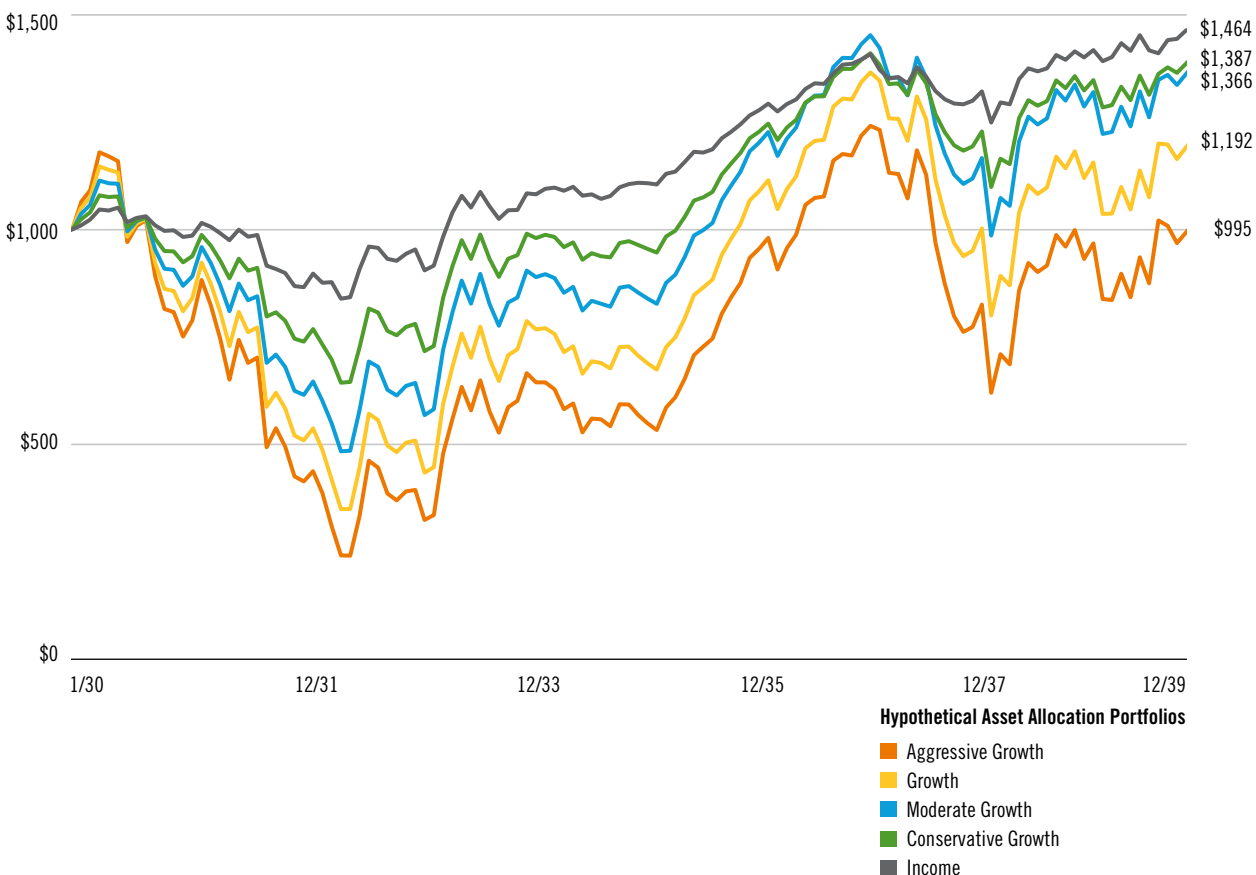
**Decade at a glance<sup>3</sup>**

1/1/30–12/31/39

	Average annual total return		Average
S&P 500	-0.05%	Short-term interest rates	1.50%
Long-term U.S. government bonds	4.88%	Annual inflation rate	-2.05%
U.S. Treasury bills	0.55%	Unemployment rate	18.23%

**Growth of a \$1,000 investment<sup>4</sup>**

1/1/30–12/31/39



3. Source for S&P 500, long-term U.S. government bonds and U.S. Treasury bills: Morningstar. Source for short-term interest rates: Bloomberg. Short-term interest rates represented by the prime rate; date range for 1930s includes 1934–1939 (data unavailable prior to 1934). Source for annual inflation rate: Morningstar (U.S. Bureau of Labor Statistics). Source for unemployment rate: U.S. Bureau of Labor Statistics. Indexes are unmanaged and include reinvested dividends or interest. They do not reflect any fees, expenses or sales charges. One cannot invest directly in an index. See [www.franklintempletondatasources.com](http://www.franklintempletondatasources.com) for additional data provider information.

4. See page 1 of this brochure for percentage breakdowns of each hypothetical asset allocation portfolio.

Note: Unless otherwise noted, all historical, non-economic-related references were obtained from *The Grolier Multimedia Encyclopedia*.



## '40s AN ECONOMY SPURRED BY WAR

World War II turned Americans into soldiers, as President Roosevelt picked the first draft number. On the home front, big bands were the rage, *Casablanca* won an Academy Award, and Rosie the Riveter went to work in defense plants. After the war ended in August 1945, economic reconversion began, accompanied by a wave of price increases and labor strikes, as some government controls were lifted.

Japan's attack on Pearl Harbor on December 7, 1941, thrust the United States into World War II and a wartime economy. In the midst of price controls and consumer goods shortages, upward trends dominated the stock market from 1943 to 1946, with a vigorous bull market in 1945 as the war ended. Each of the five asset allocation portfolios, shown in the chart below, reflects wartime market gains during this decade. The Aggressive Growth portfolio, with its 100% exposure to stocks, outperformed the other hypothetical portfolios during this decade, while the Income portfolio was the least volatile based on standard deviation of returns.

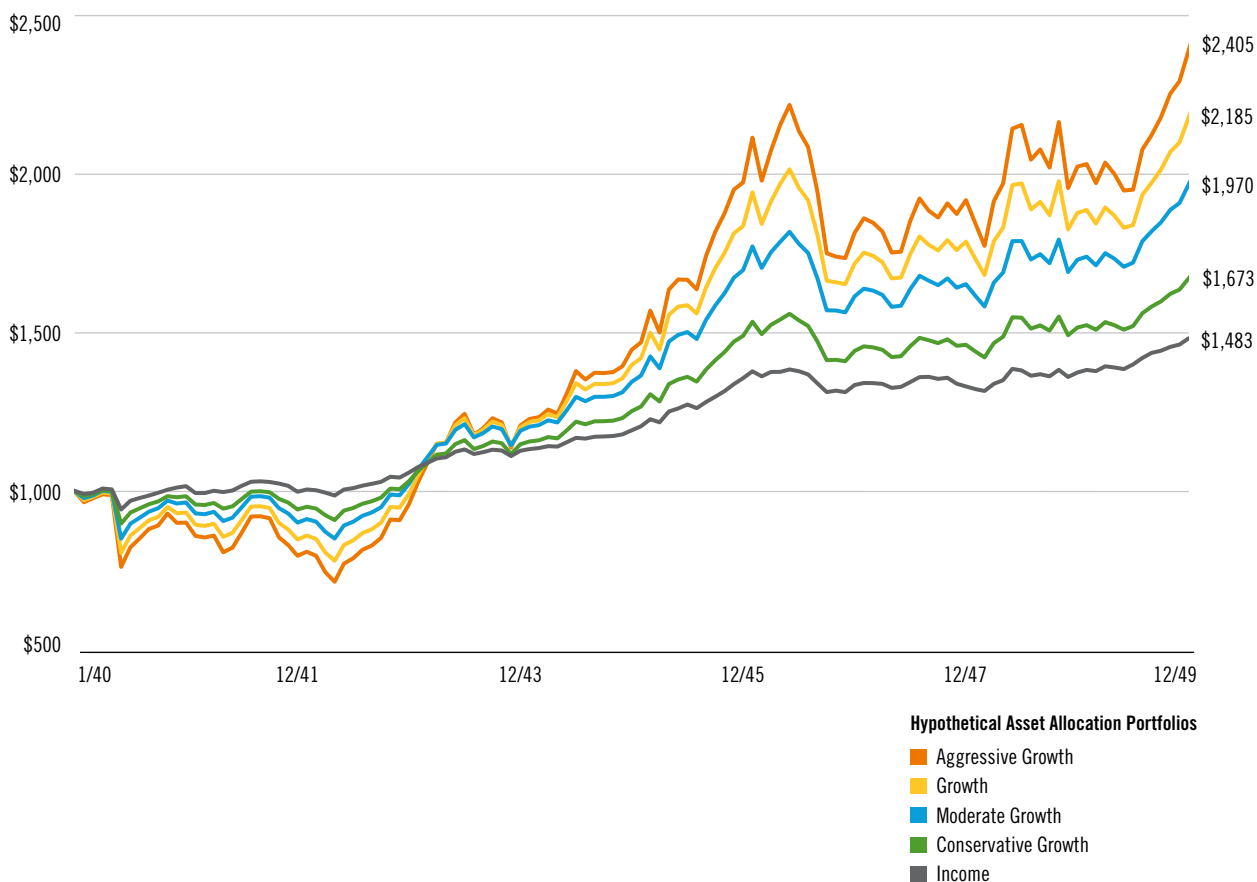
**Decade at a glance<sup>5</sup>**

1/1/40–12/31/49

Average annual total return		Average	
S&P 500	9.17%	Short-term interest rates	1.59%
Long-term U.S. government bonds	3.24%	Annual inflation rate	5.41%
U.S. Treasury bills	0.41%	Unemployment rate	5.17%

**Growth of a \$1,000 investment<sup>6</sup>**

1/1/40–12/31/49



5. See footnote 3 on page 3 of this brochure for source information.

6. See page 1 of this brochure for percentage breakdowns of each hypothetical asset allocation portfolio.



## '50s THE EISENHOWER YEARS

Rosa Parks refused to give up her seat, sparking the Montgomery, Alabama, bus boycott and focusing the nation's attention on civil rights. Howdy Doody, Mickey Mouse and Roy Rogers were children's favorites. Elvis rocked the world, and automobiles and television sets swept the country. As Americans tried to keep up with the Joneses, consumerism flourished.



While President Eisenhower guided America through the early years of the cold war, the stock market made gains and by year-end 1954, stock prices had reached their highest levels since 1929. This exuberance was followed by a bear market lasting 18 months, from April 1956 through October 1957, during which the S&P 500 declined 19.4%.<sup>7</sup> Market gains during this decade led to growth in each of the five asset allocation portfolios, shown in the chart below. The Aggressive Growth portfolio, with 100% exposure to stocks, performed the best among the five hypothetical portfolios. The Income portfolio returned less but was the least volatile based on standard deviation of returns.

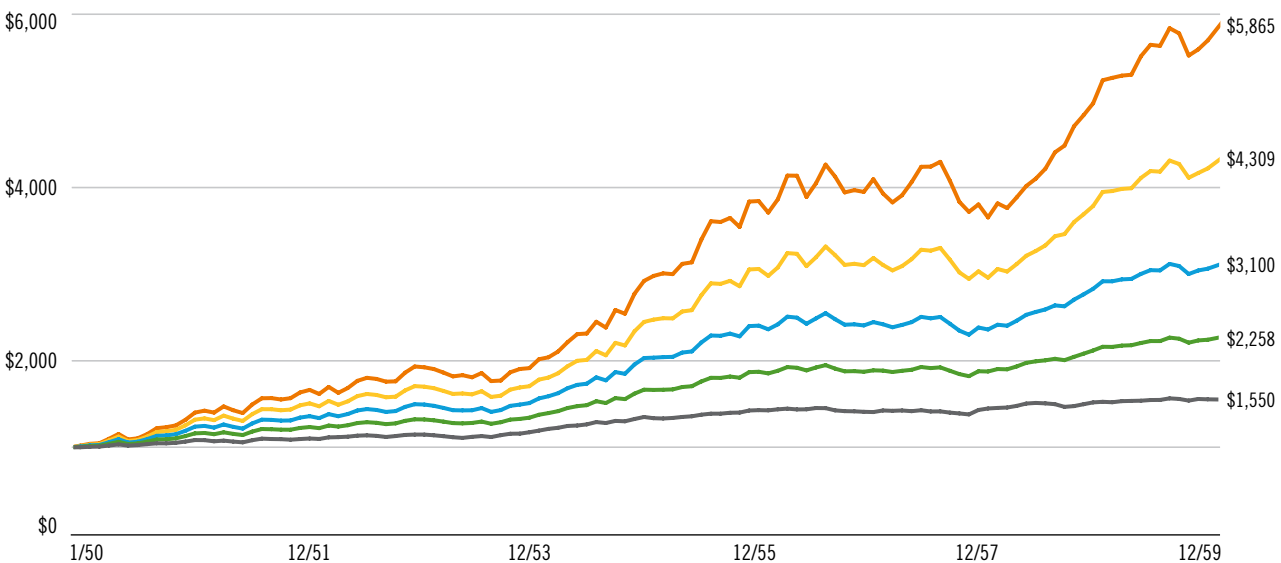
**Decade at a glance<sup>8</sup>**

1/1/50–12/31/59

Average annual total return		Average	
S&P 500	19.35%	Short-term interest rates	3.32%
Long-term U.S. government bonds	-0.07%	Annual inflation rate	2.20%
U.S. Treasury bills	1.87%	Unemployment rate	4.51%

**Growth of a \$1,000 investment<sup>9</sup>**

1/1/50–12/31/59



**Hypothetical Asset Allocation Portfolios**

- Aggressive Growth
- Growth
- Moderate Growth
- Conservative Growth
- Income

7. Source: Ned Davis Research, Inc.

8. See footnote 3 on page 3 of this brochure for source information.

9. See page 1 of this brochure for percentage breakdowns of each hypothetical asset allocation portfolio.



## '60s CONFORMITY GIVES WAY TO SOCIAL REVOLUTION

Although America mourned the loss of John F. Kennedy, his goal of putting a man on the moon lived on when Neil Armstrong arrived there and took “one small step for man and one giant leap for mankind.” Martin Luther King Jr.’s “I Have a Dream” speech in 1963 inspired the civil rights movement. In November 1963, the U.S. sent some 16,000 military personnel to Vietnam. At home, it was a volatile time of protests and televised war.

American culture, long restrained by the sense of team spirit and conformity induced by the crises of depression, war and the ongoing cold war, broke loose in a multitude of swift changes. The economy was equally turbulent, and the stock market recorded three bear markets.<sup>10</sup> The overall performance of the S&P 500, on which the Aggressive Growth portfolio is based, netted a 7.81% average annual total return during the decade. This portfolio had the highest return, while the Income portfolio was the least volatile based on standard deviation of returns.

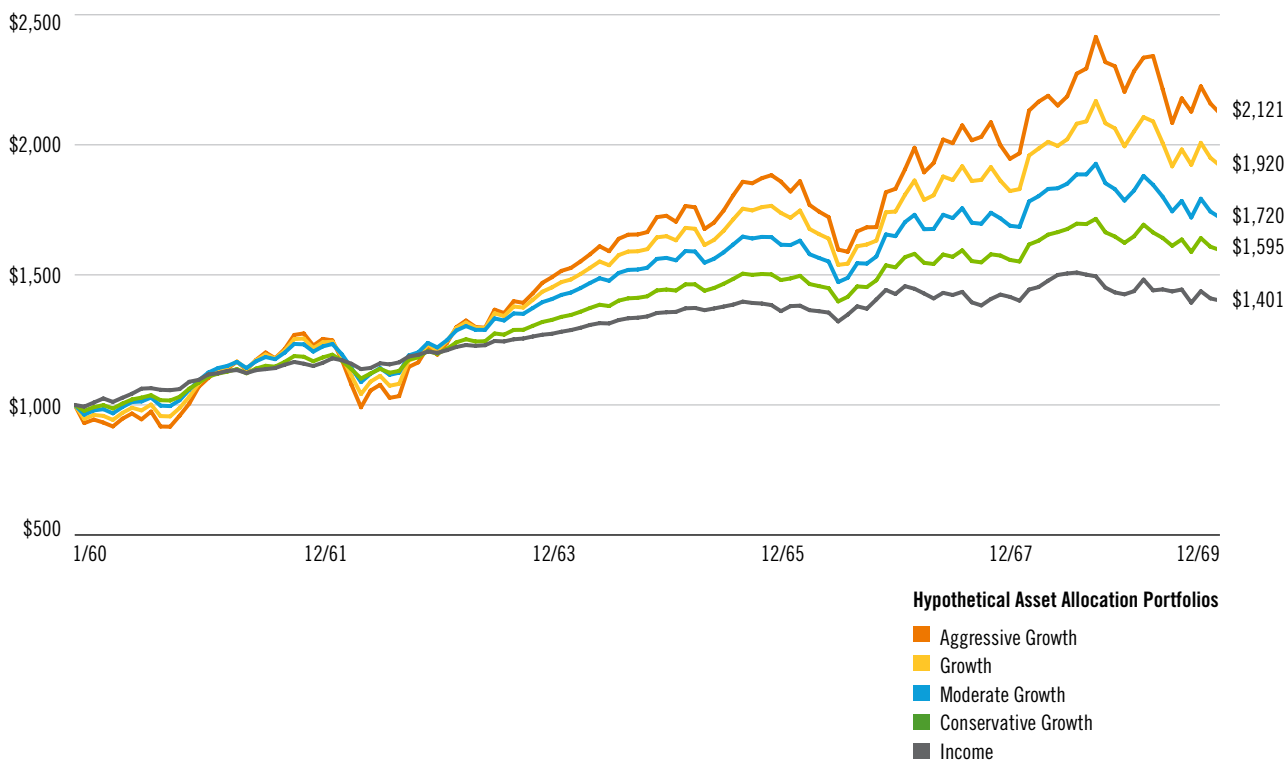
**Decade at a glance<sup>11</sup>**

1/1/60–12/31/69

	Average annual total return		Average
S&P 500	7.81%	Short-term interest rates	5.29%
Long-term U.S. government bonds	1.45%	Annual inflation rate	2.52%
U.S. Treasury bills	3.88%	Unemployment rate	4.78%

**Growth of a \$1,000 investment<sup>12</sup>**

1/1/60–12/31/69



10. Source: Ned Davis Research, Inc.

11. See footnote 3 on page 3 of this brochure for source information.

12. See page 1 of this brochure for percentage breakdowns of each hypothetical asset allocation portfolio.



## '70s ENERGY CRISIS SPARKS ECONOMIC CRISIS

U.S. soldiers came home from the Vietnam War to a different America. President Nixon profoundly changed U.S. foreign policy with visits to China and Russia in 1972. The very next year, his administration fell into disgrace with the stunning events of the Watergate scandal, causing Americans to question U.S. leadership. On the business landscape, Apple and Commodore began producing the first personal computers, and the number of women entering the workforce increased rapidly.

When the Organization of the Petroleum Exporting Countries (OPEC) quintupled oil prices in 1973, a deep recession hit America. The stock market plunged 45.1% from January 1973 through December 1974.<sup>13</sup> Unemployment reached 8.7% in March 1975, the highest level since 1941 and in 1979, commercial banks raised their prime rates to a whopping 15.7%. An investment in the Conservative Growth portfolio, with 40% exposure to stocks, performed the best among the five hypothetical portfolios, while the Income portfolio was the least volatile based on standard deviation of returns.

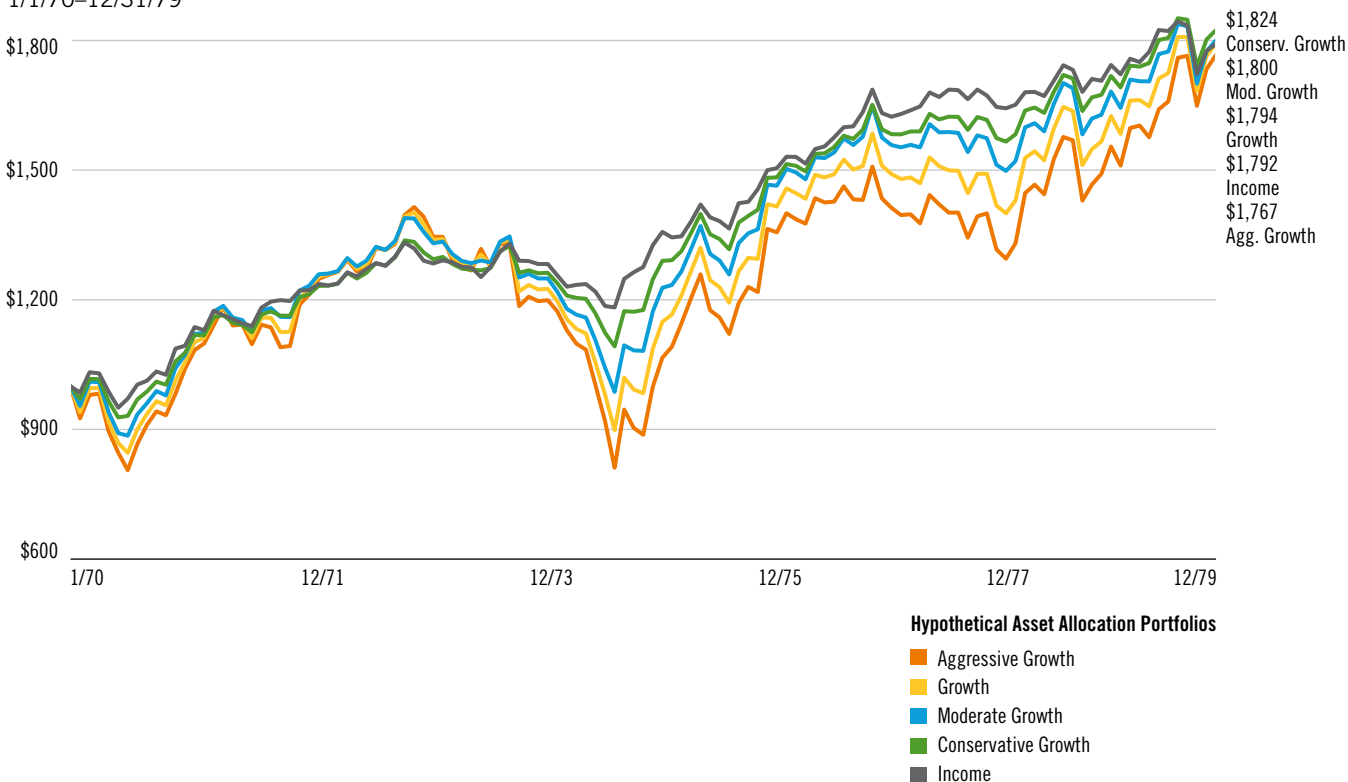
**Decade at a glance<sup>14</sup>**

1/1/70–12/31/79

Average annual total return		Average	
S&P 500	5.86%	Short-term interest rates	8.08%
Long-term U.S. government bonds	5.52%	Annual inflation rate	7.37%
U.S. Treasury bills	6.31%	Unemployment rate	6.21%

**Growth of a \$1,000 investment<sup>15</sup>**

1/1/70–12/31/79



13. Source: Ned Davis Research, Inc.

14. See footnote 3 on page 3 of this brochure for source information.

15. See page 1 of this brochure for percentage breakdowns of each hypothetical asset allocation portfolio.



# '80s REAGANOMICS

The U.S. space shuttle *Columbia*, the world's first reusable spacecraft, landed after completing 36 orbits. Judge Sandra Day O'Connor became the first woman associate justice of the U.S. Supreme Court. Soviet leader Mikhail Gorbachev agreed to arms reduction talks with the U.S.

President Reagan signed extensive budget- and tax-cutting legislation in 1981, and sweeping tax-reform legislation in 1986. The “Black Monday” stock market crash of October 19, 1987, became the largest one-day stock market decline on record, as the Dow Jones Industrial Average fell an astounding 22.6%. Even with this major one-day selloff, the S&P 500’s total returns averaged 17.55% annually over the decade. The Aggressive Growth portfolio performed the best during this decade while the Income portfolio was the least volatile based on standard deviation of returns.

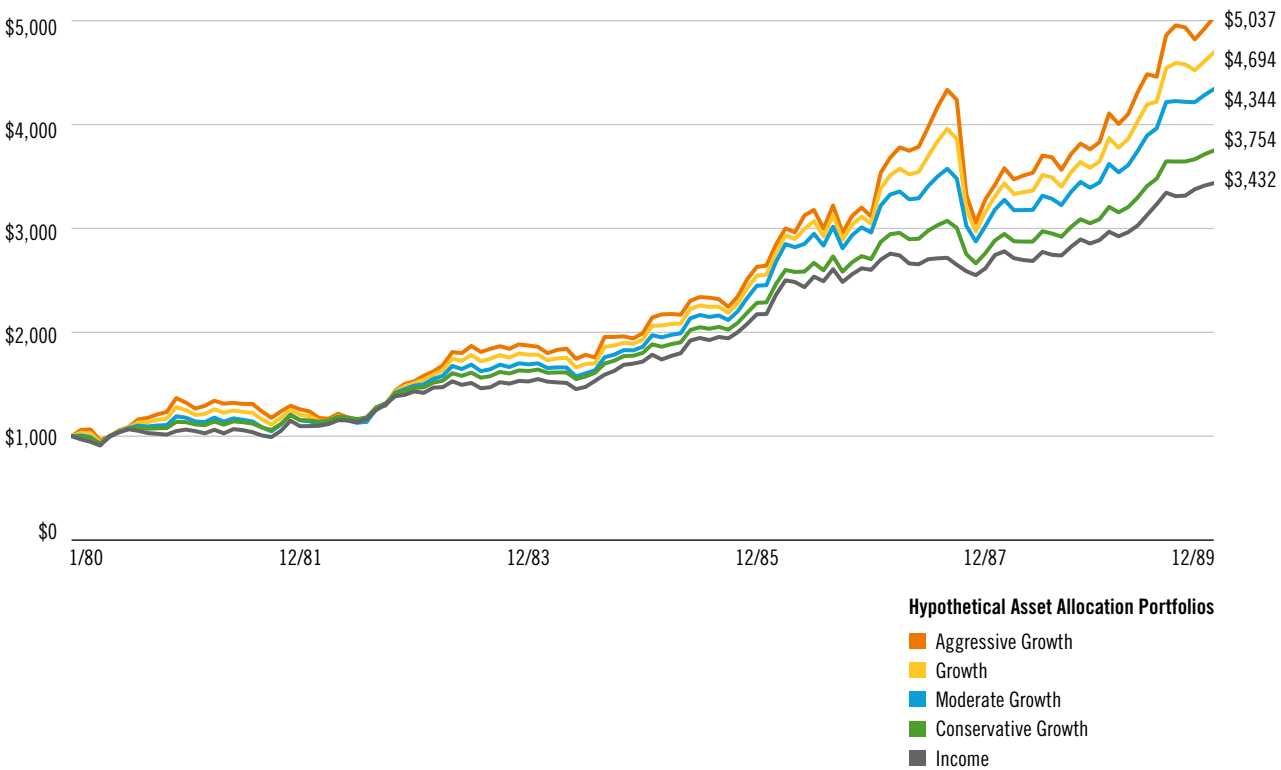
**Decade at a glance<sup>16</sup>**

1/1/80–12/31/89

	Average annual total return		Average
S&P 500	17.55%	Short-term interest rates	11.84%
Long-term U.S. government bonds	12.62%	Annual inflation rate	5.09%
U.S. Treasury bills	8.89%	Unemployment rate	7.27%

**Growth of a \$1,000 investment<sup>17</sup>**

1/1/80–12/31/89



16. See footnote 3 on page 3 of this brochure for source information.

17. See page 1 of this brochure for percentage breakdowns of each hypothetical asset allocation portfolio.



## '90s THE LONGEST BULL MARKET IN HISTORY

The World Wide Web experienced explosive growth. The United States, Mexico and Canada signed the North American Free Trade Agreement (NAFTA). In 1994, Republicans won both houses of Congress for the first time in 40 years. The Dow Jones Industrial Average jumped to its first close above 10,000 on March 29, 1999.



From October 1990 through mid-1998, stock market investors were rewarded by the longest bull market in history.<sup>18</sup> The Asian economic crisis briefly shook U.S. investor confidence as the Dow Jones Industrial Average experienced its single biggest point loss up to that time on October 27, 1997. The decade ended on December 31, 1999, with technology stocks fueling the NASDAQ Index to its then highest close ever. As shown in the chart below, the Aggressive Growth portfolio performed the best of the five hypothetical portfolios with an average annual total return of 18.20% through December 31, 1999, while the Income portfolio was the least volatile based on standard deviation of returns.

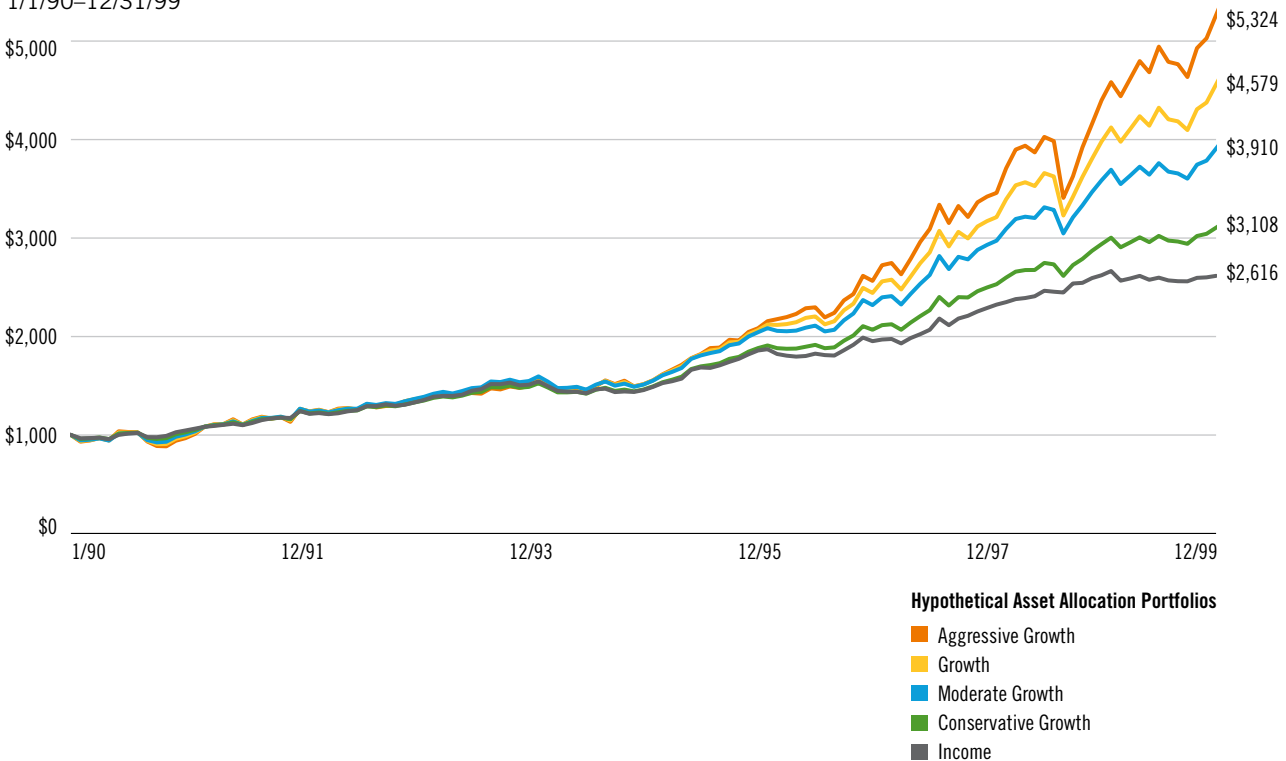
**Decade at a glance<sup>19</sup>**

1/1/90–12/31/99

Average annual total return		Average	
S&P 500	18.20%	Short-term interest rates	7.96%
Long-term U.S. government bonds	8.79%	Annual inflation rate	2.93%
U.S. Treasury bills	4.92%	Unemployment rate	5.77%

**Growth of a \$1,000 investment<sup>20</sup>**

1/1/90–12/31/99



18. Sources: Dow Jones & Company, Ned Davis Research, Inc.

19. See footnote 3 on page 3 of this brochure for source information.

20. See page 1 of this brochure for percentage breakdowns of each hypothetical asset allocation portfolio.



## '00s THE WORLD GREETES A NEW MILLENNIUM

At the beginning of the 21st century, George W. Bush was elected president after one of the closest presidential races in U.S. history. The Economic Growth and Tax Relief Reconciliation Act of 2001 offered some of the largest tax cuts in 20 years.

On September 11, 2001, one of the greatest tragedies in U.S. history occurred as more than 3,000 American lives were lost in a terrorist attack on the World Trade Center. The 2003 war in Iraq helped precipitate a long upward trend in oil prices, which peaked in July 2008 at an all-time high to date of over \$145 per barrel.<sup>21</sup>

In 2008, financial markets around the world plunged, triggered by a credit crunch which compounded the effects of a global economic slowdown. Unprecedented actions were taken by governments around the world to address the financial crisis. In 2009, Barack Obama took office as the 44th U.S. President.

The first ten years of the new millennium may be remembered as some of the most volatile for major market indexes. The deflation of the Internet “bubble” led to one of the most severe bear markets in years. Even as markets began to recover, investors remained cautious in the wake of corporate scandals, blue-chip bankruptcies and hostilities in the Middle East. Concerns about the housing markets in 2007 turned into a full-blown recession in 2008, when a global credit crunch heightened volatility in both equity and fixed income markets, and led to the second severe bear market of the decade. Markets rallied in 2009 as government stimulus helped the economy gain a foothold. As shown in the chart below, the Income portfolio performed the best among the five hypothetical asset allocation portfolios during these years. In addition, the Conservative Growth portfolio was the least volatile based on standard deviation of returns.

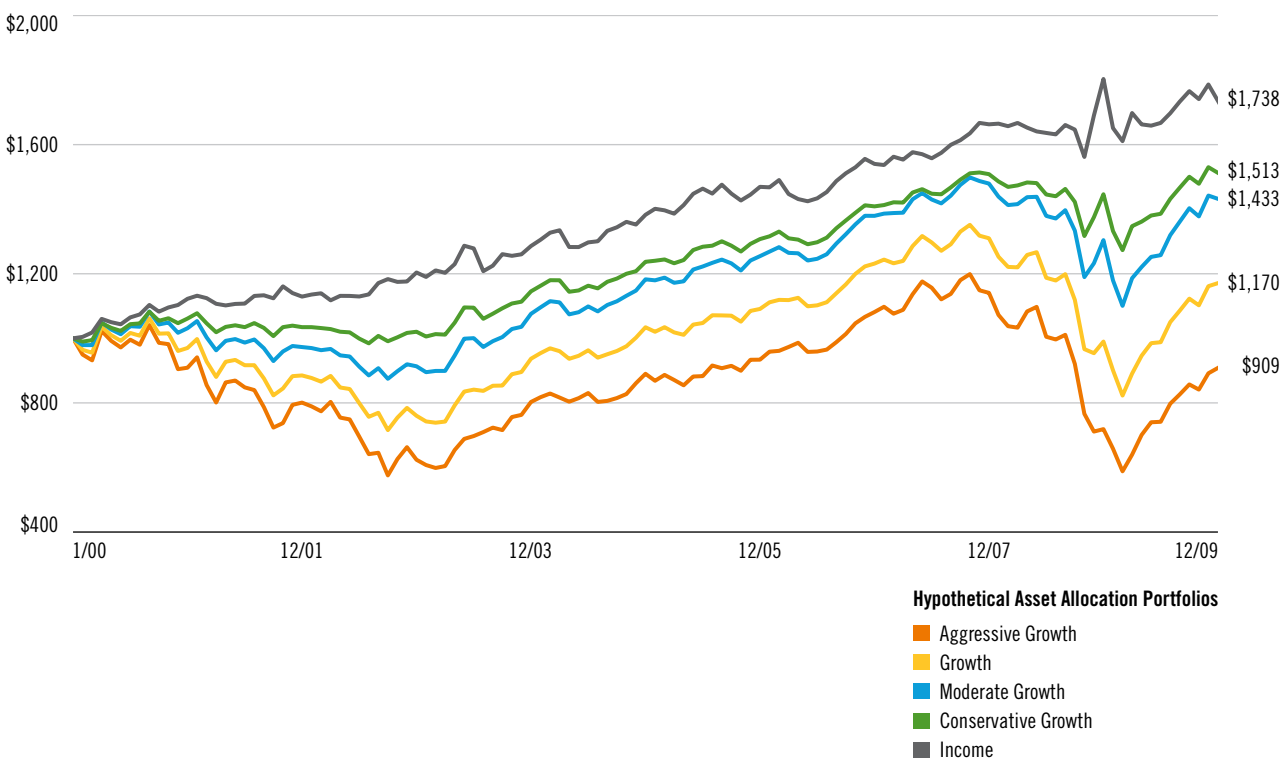
**Decade at a glance<sup>22</sup>**

1/1/00–12/31/09

	Average annual total return		Average
S&P 500	-0.95%	Short-term interest rates	5.96%
Long-term U.S. government bonds	7.69%	Annual inflation rate	2.52%
U.S. Treasury bills	2.76%	Unemployment rate	5.54%

**Growth of a \$1,000 investment<sup>23</sup>**

1/1/00–12/31/09



21. Source: Bloomberg, L.P.

22. See footnote 3 on page 3 of this brochure for source information.

23. See page 1 of this brochure for percentage breakdowns of each hypothetical asset allocation portfolio.



# '10s **THE iGENERATION ENGAGES IN A GLOBAL TRANSFORMATION**

Technology and social media continue to drive the Information Age forward. Social media exerts a growing influence on how people access information across the cultural landscape. Mobile devices have become a primary driver for many consumer-facing businesses, and the monetization of mobile is underway as advertisers reallocate spending away from traditional media and toward web-based platforms, including Facebook, Twitter and Google.

The massive accumulation of digital information, however, has had some negative consequences. Large-scale gathering of information by both governments and private companies has sparked global debate, while the ongoing battle between hackers and holders of sensitive information has become a hallmark of the decade.

In 2016, Donald Trump surprised the political establishment and was elected 45th president of the United States.

Central bank policies in the U.S., Japan and the eurozone injected massive liquidity into global economies in the first seven years of the decade. A synchronous global recovery in the aftermath of the previous decade's financial crisis appeared to be finally underway by 2017. The U.S. economy has been more tortoise than hare, continuing the second longest expansion since World War II, if not quite as robustly as expected given the depth of the last recession. Unemployment fell to 17-year lows by the end of 2017. U.S. equity markets moved higher while U.S. bond rates stayed relatively low in the absence of inflation. In December 2015, the Fed began to slowly raise the federal funds target rate, but the multi-year 0%–0.25% rate caused the cash component of the Income and Conservative Growth portfolios to act as a drag on returns. The Aggressive Growth portfolio's outperformance reflected strong equity market returns.

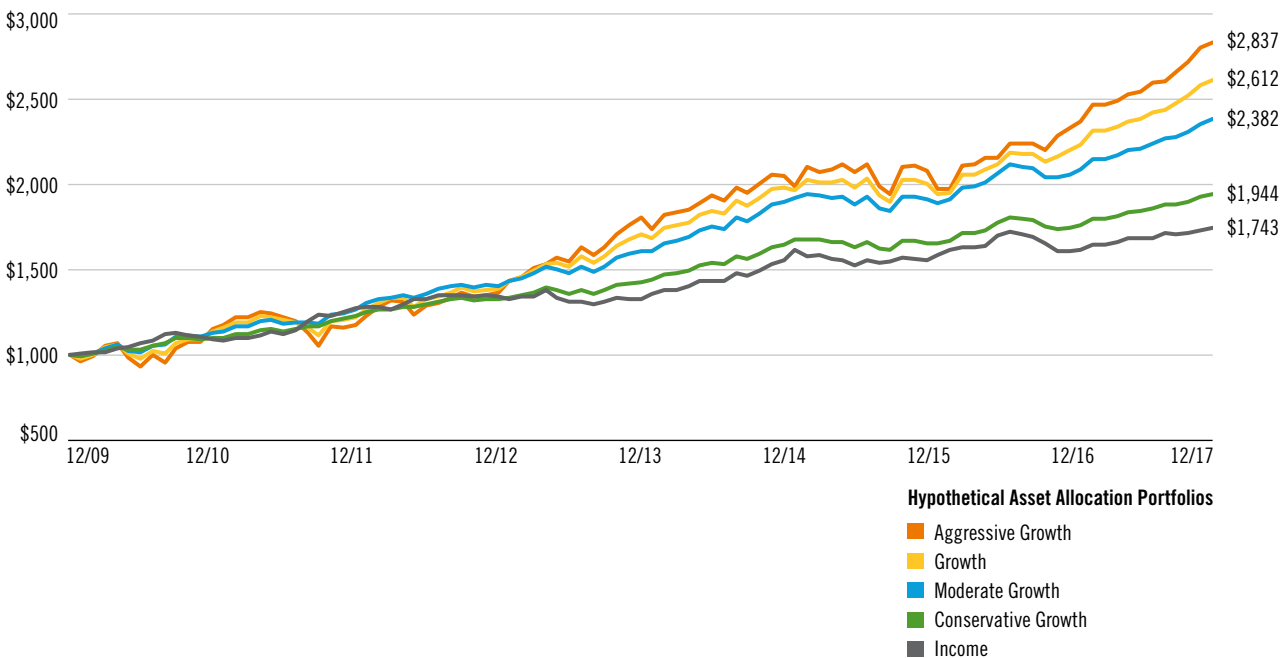
**Decade at a glance<sup>24</sup>**

1/1/10–12/31/17

Average annual total return		Average	
S&P 500	13.92%	Short-term interest rates	3.40%
Long-term U.S. government bonds	6.79%	Annual inflation rate	1.67%
U.S. Treasury bills	0.16%	Unemployment rate	6.83%

**Growth of a \$1,000 investment<sup>25</sup>**

1/1/10–12/31/17



24. See footnote 3 on page 3 of this brochure for source information.

25. See page 1 of this brochure for percentage breakdowns of each hypothetical asset allocation portfolio.

# ASSET ALLOCATION: THE KEY TO LONG-TERM PLANNING

This brochure demonstrates differences in long-term performance based on five selected hypothetical asset allocation portfolios.

As shown in the charts in this brochure, the Aggressive Growth portfolio was the best performing over the long term but along the way, it was more volatile based on standard deviation of returns. The Income portfolio was the least volatile over the decades but returned less to investors. However, no matter which portfolio you examine, all provided average annual total returns of at least 6.4% over the 88-year period. Please remember, however, that past performance does not guarantee future results. Diversification does not assure a profit or guarantee against a loss.

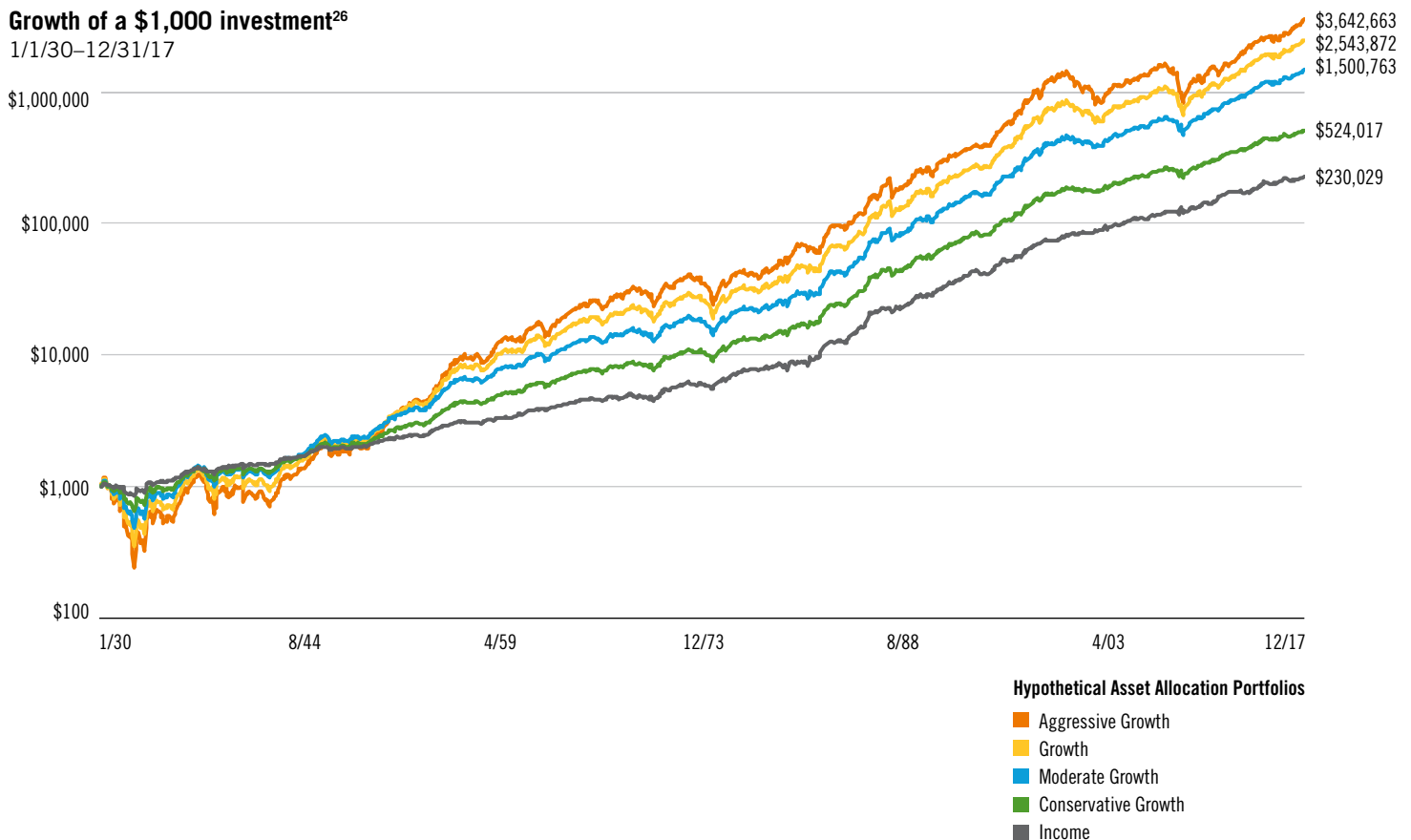
## Performance summary<sup>26</sup>

1/1/30–12/31/17

Hypothetical asset allocation portfolios	Growth of a \$1,000 investment	Best 1-year return	Worst 1-year return	Average annual total return
Aggressive Growth	\$3,642,663	54.0%	-43.3%	9.8%
Growth	\$2,543,872	43.5%	-35.7%	9.3%
Moderate Growth	\$1,500,763	35.2%	-28.1%	8.7%
Conservative Growth	\$524,017	28.8%	-19.2%	7.4%
Income	\$230,029	30.6%	-11.6%	6.4%

## Growth of a \$1,000 investment<sup>26</sup>

1/1/30–12/31/17



26. See page 1 of this brochure for percentage breakdowns of each hypothetical asset allocation portfolio.

# FRANKLIN TEMPLETON INVESTMENTS

At Franklin Templeton Investments, we're dedicated to one goal: delivering exceptional asset management for our clients. By bringing together multiple, world-class investment teams in a single firm, we're able to offer specialized expertise across styles and asset classes, all supported by the strength and resources of one of the world's largest asset managers. This has helped us to become a trusted partner to individual and institutional investors across the globe.

## Focus on investment excellence

At the core of our firm, you'll find multiple independent investment teams—each with a focused area of expertise—from traditional to alternative strategies and multi-asset solutions. And because our portfolio groups operate autonomously, their strategies can be combined to deliver true style and asset class diversification.

All of our investment teams share a common commitment to excellence grounded in rigorous, fundamental research and robust, disciplined risk management. Decade after decade, our consistent, research-driven processes have helped Franklin Templeton earn an impressive record of strong, long-term results.

## Global perspective shaped by local expertise

In today's complex and interconnected world, smart investing demands a global perspective. Franklin Templeton pioneered international investing over 65 years ago, and our expertise in emerging markets spans more than

a quarter of a century. Today, our investment professionals are on the ground across the globe, spotting investment ideas and potential risks firsthand. These locally based teams bring in-depth understanding of local companies, economies and cultural nuances, and share their best thinking across our global research network.

## Strength and experience

Franklin Templeton is a global leader in asset management serving clients in over 170 countries.\* We run our business with the same prudence we apply to asset management, staying focused on delivering relevant investment solutions, strong long-term results and reliable, personal service. This approach, focused on putting clients first, has helped us to become one of the most trusted names in financial services.



\* As of 12/31/17. Clients are represented by the total number of shareholder accounts.

*Investors should carefully consider a fund's investment goals, risks, charges and expenses before investing. To obtain a summary prospectus and/or prospectus, which contains this and other information, talk to your financial advisor, call us at (800) DIAL BEN/342-5236, or visit **franklintempleton.com**. Please carefully read a prospectus before you invest or send money.*

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